



California Public Employees' Retirement System

Board of Administration

STATEMENT OF GOVERNANCE PRINCIPLES

December 2009

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To ensure that the accountability and authority for governance and management of CalPERS is clearly stated, the Board sets forth herein governing principles to identify and distinguish between the roles of the Board, the Board President, the Board Vice President, Committees, Committee Chairs, Vice Chairs, and the Chief Executive Officer and staff.

I. The Board's Role

All authority granted by the Constitution and statutes to the Board of Administration is retained, except as delegated as provided herein. The Board's principal role is to ensure that CalPERS is appropriately governed and managed. With the overriding goal of protecting Fund assets, the Board's role is to:

A. Adopt and Monitor Policies

1. Set the long-term strategic direction and annual business plan for CalPERS, focusing on the goals of CalPERS against which its performance is measured and monitored.
2. Set policies for CalPERS focusing on:
 - a. Asset allocation
 - b. Unfunded liabilities
 - c. Risk-adjusted rates of return
 - d. Potential future risks
3. Select, regularly evaluate, and, if necessary, take disciplinary action against the Chief Executive Officer.
4. Delegate execution of established Board policy and strategic objectives to the Chief Executive Officer and through the Chief Executive Officer, re-delegation to the employees of CalPERS.

B. Review and Evaluate Performance

1. Monitor performance and regularly review results as compared to:
 - a. CalPERS' mission/vision statement

- b. Strategic plan and other long-range goals
- c. Annual business plans
- d. Performance measures that include external as well as internal measures

- 2. Benchmark, incorporating measures that, if realized, clearly position CalPERS within the top quartile of comparable funds with which it is compared.
- 3. Assure plans are in place to provide for senior management succession.
- 4. Review, approve, and monitor actuarial data and assumptions.

C. Review and Evaluate Financial and Administrative Operations

- 1. Review and approve the annual budget, including mid-year adjustments; financial standards and policies; and material capital allocations and material transactions not in the ordinary course of business as set forth in the Finance Committee Charter.
- 2. Ensure the integrity of the financial control and reporting system.
- 3. Oversee all audits, including approve the outside auditor, the annual internal audit plan, and provide that financial controls and reporting systems are as set forth in the Finance Committee Charter.

D. Executive Sessions

The Board will meet in Executive session where authorized by law or Board policy, and when needed, at least annually to review reports of the Performance and Compensation Committee with respect to the performance and compensation of the Chief Executive Officer. It may also meet with the Chief Executive Officer with respect to the performance appraisal and compensation recommendations of non-delegated executive staff, and such other employees as the Chief Executive Officer may wish to discuss and include, based on their compensation structures and responsibilities.

E. Other Board Responsibilities

1. Have in place Board policies and guidelines regarding proposed legislation (state and federal), corporate governance, shareholder voting, and the adoption/ amendment of administrative code, rules and regulations.
2. At all times meet high ethical standards that exceed legal minimums.
3. Organize the board of trustees; organize its Committees; and approve charters and delegations to Committees and the Chief Executive Officer.
4. Annually conduct a formal evaluation of the Board and its performance, determining first the most effective evaluation tool and then taking the steps necessary to improve Board operations and self-governance.
5. Set the Board agenda, by identifying, articulating, prioritizing and scheduling matters the Board will regularly address.
 - a. Create an annual schedule for its meetings.
 - b. Identify benchmarks that trigger Board review.
 - c. Identify information needs and determine how, when and in what form information is to be delivered to Board members so as to enable the Board to meet its responsibilities, having regard for time available.
6. Be responsible and accountable to members, beneficiaries, their representative organizations, and participating public employers and others with oversight interests in the Retirement System including the Legislature and taxpayer organizations.
 - a. Monitor relations and communications with members, beneficiaries, their organizations, and others with oversight interests.
 - b. Provide for the election of employee and retired representatives on the Board.
 - c. Conduct member hearings and decide appeals.
7. In recognition that Board members are fiduciaries, charged by law to discharge their duties to the retirement system solely in the

interest of, and for the exclusive purposes of providing benefits to participants and their beneficiaries, minimizing employer contributions and defraying reasonable expenses of administering the system, Board members shall attend fiduciary training, which includes on-line training (if available), as approved by the Board President, annually.

8. Undertake when necessary the responsibility for disciplining a member of the Board whose conduct fails to meet the standards outlined in these Principles or is otherwise inconsistent with Board policies.

F. Governing Style

1. The Board is responsible for creating and maintaining an atmosphere that encourages frank and collegial discussions both at the Board and Committee level and as between the Board and management. The Board strives to achieve a governing style that emphasizes:
 - a. *Strategic leadership*
 - b. *Outward vision*
 - c. Focus on the *future*
 - d. *Proactivity*
 - e. Encouragement of *collegiality*, including the creation of an environment which supports CalPERS' Core Values
 - f. *Civility and courtesy*, to both those with whom the Board interacts and between Board members
 - g. Respect for *diversity*, recognizing the *value* of all input
 - h. Governance by *consensus*
 - i. A partnership with CalPERS management
 - j. Ethical conduct of Board business to *avoid even the appearance of impropriety*
2. The Board establishes and communicates Board policies and priorities and then monitors performance in light of its established

policies and priorities. The Board recognizes that the achievement of its goals requires self-discipline by the Board as a whole and by individual Board members to live by the policies articulated herein and to govern with excellence.

G. Delegation

1. *Definition.* A delegation is the grant of authority from one person or entity (such as the Board or a committee of the Board) with the power to act to another person or entity. A delegation of authority does not extinguish the authority of the delegator, nor does it absolve the delegator of responsibility. A delegation of authority should be distinguished from providing direction, the former being a grant of power, and the latter being a more specific command or order to carry out a particular act.
2. *Delegation of Board Functions.* While, as a general rule, a trustee or other fiduciary should not delegate to others authority that he or she ought personally to perform, it is appropriate to delegate tasks that the individual cannot reasonably himself or herself perform. The members of the Board, themselves, cannot reasonably perform all acts necessary to operate CalPERS; they must rely upon CalPERS staff and contractors to carry out many activities and functions. Accordingly, the Board may delegate authority to committees of its members, to the Chief Executive Officer, and to CalPERS contractors.
3. *Standards for Delegation.* Delegations must be prudent and consistent with the Board's fiduciary responsibilities. The Board and the Chief Executive Officer must (a) select delegates with care, (b) define delegated authority clearly, (c) monitor the performance of their respective delegates, and (d) take corrective action when appropriate.
4. *Sub-Delegation.* When the Board has delegated authority to the Chief Executive Officer, he or she is authorized to delegate to his or her subordinates any portion or all of that authority unless the Board has required the Chief Executive Officer to act personally. Further, any delegation of authority by the Board or its committees to the General Counsel, the Chief Actuary, the Chief Investment Officer or any other CalPERS staff member or to contractors shall be deemed to be a delegation by the Board directly to the Chief Executive Officer who then sub-delegated such authority to such individual.

5. *Finality.* A delegatee may take final action as to any authority delegated to him or her except where the delegating party requires the delegatee to first secure the delegating party's review and ratification of the delegatee's chosen course of action. Where a delegation does not require the delegating party's review and ratification prior to the delegatee taking action, the delegatee has authority to act finally, and will be responsible and accountable for his or her actions.
6. *Content of Delegations.* Delegations should be clear and specific as to (a) what specific authority, responsibility or action is being delegated and to whom, (b) whether sub-delegation is permitted, and (c) whether the delegatee is authorized to act finally or whether action by the delegatee is subject to review and ratification or reversal by the grantor of the delegation.
7. *Formality.* All delegations should be memorialized in writing either before or after the delegation.

II. Board/Chief Executive Officer Relationship

The Board has delegated to the Chief Executive Officer the authority to administer and manage the System. Policy and direction set by the Board is implemented through the Chief Executive Officer so that a strong relationship between the Board and Chief Executive Officer and clear delineation of authority is critical to the accomplishment of the Board's objectives.

III. Individual Board Member Responsibilities

- A. All those who appear before the CalPERS Board and its committees have the right to be treated with respect, courtesy, and openness. Each Board member should commit to conduct him/herself at all times with civility and courtesy, to both those with whom the Board interacts and to his/her colleagues. Individual Board members should also endeavor to correct fellow Board members, should any of their conduct fall below this standard.
- B. Each Board member or authorized deputy should attend every meeting of the Board, and every meeting of a committee of which s/he is a member. Periodic absences for illness or other non-avoidable personal and professional reasons are expected, however it is also expected that every Board member will achieve at least a 75% attendance standard. Any Board member who is not a member of a committee is nonetheless encouraged, time permitting, to attend the committee meetings. This attendance not only provides a more robust input of perspectives at the

committee decision-making level, but also provides for more enlightened and often more efficient decision-making at the Board level.

- C. Board members have no obligation to meet with or communicate with advisors, managers, consultants, contractors or vendors. Any contacts and communications between individual Board members and advisors, managers, consultants, contractors and vendors to CalPERS shall be at the option, discretion, and judgment of each Board member. Individual Board members shall avoid favoritism, conflicts and disclosure of privileged information and at all times individual Board members shall act in the best interest of CalPERS consistent with his/her fiduciary duty.
- D. Individual Board members shall not seek the legal advice or counsel of CalPERS' outside counsel, without first verifying with CalPERS' General Counsel that the expenditure of legal fees is appropriately related to service on the Board. The General Counsel shall ensure that all Board members receive the benefit of any legal advice or counsel provided to any individual Board member.
- E. Individual Board members are not to become involved in operational management, except as requested by the Chief Executive Officer.
- F. Whenever CalPERS is in the process of selecting or employing advisors, managers, consultants, contractors or vendors, individual Board members shall limit their communications with any person or entity (or agent for such person or entity) that may be under consideration in such selection or hiring process, in a manner that is consistent with the Board's procurement policies and the Board's interpretation of Communications with Prospective Vendors/Partners, a copy of which is attached to and incorporated into these Principles. Any Board member who becomes aware of a contact by a person or entity (or agent for such person or entity) that the Board member reasonably believes violates the procurement policies shall report the contact to the Board's President. The Board President shall inform the Chief Executive Officer of the contact, who is responsible for responding in accordance with the Board's procurement policies.
- G. Individual Board members shall ensure their activities conform to the Board's policies regarding governance, prudence, ethics, conflicts of interest, incompatible activities, insider trading, and travel. A copy of (1) the Board's Statement of Activities That Are Inconsistent, Incompatible, or in Conflict With the Duties of a Board Member of the Public Employees' Retirement System, (2) the Board's Insider Trading Policy, and (3) the Board's Travel Policy are attached to and incorporated into these Principles.

- H. Board members shall conduct themselves with integrity and dignity, strive to understand CalPERS objectives, and exercise care, prudence and diligence in handling confidential information.
- I. Board members shall not seek nor accept any compensation or political contributions that would violate California law, including without limitation the Political Reform Act of 1974 (Government Code section 81000 et seq.).
- J. Board members shall not seek nor accept any gifts (as defined in the California Political Reform Act), or reimbursement for travel or any other activity, that is not specifically permitted in California's Political Reform Act of 1974 (Government Code section 81000 et seq.).
- K. Board members shall take positive steps to prohibit breaches of duty (through negligence or intentional action), unauthorized communication with individuals seeking to influence the Board, and unauthorized communication with individuals who may receive personal gains as a result of Board actions.
- L. Board members shall never act where there may be a conflict of interest or appearance of conflict of interest. A conflict of interest is understood to be a situation where a relationship exists that could reasonably be expected to diminish independence of judgment in performance of official responsibilities as a Board member. Specifically, Board members may not participate in decisions which might result in significant personal economic advantage.
- M. Board members recognize that all CalPERS business transactions are to be based on integrity, competence, financial merit and benefit to CalPERS participants and their beneficiaries, and not on personal relationships.
- N. Board members shall act in accordance with the prudent expert rule.
- O. Before initiating or supporting litigation that is adverse to the Board, a Board member who believes that the Board has acted in violation of its fiduciary responsibilities or applicable law should first strive to avoid the need for litigation. This includes the responsibility to proactively discuss the Board member's concerns with his/her fellow Board members and, where applicable, the Chief Executive Officer. This also includes encouraging parties outside of CalPERS who share the Board member's concerns and who are also considering litigation to take the opportunity to potentially avoid litigation by discussing their concerns directly with the Board and individual Board members.
- P. Board Member – Staff Interaction

1. *Requests for Documents.* Individual Board members should direct requests for documents to the appropriate Committee Chair. Each Chair has the authority to designate one or more staff to handle these requests on behalf of the Chair and to use other processes to handle such requests. Staff shall inform all Board members of any documents provided pursuant to such a request.
2. *Requests for Consultant Work.* Individual Board member requests for outside consultants to perform additional work shall be directed to the appropriate Committee Chair or to the Board President.
3. *Questions on Agenda Items.* Individual Board members should direct questions regarding specific agenda items to the highest-ranking executive who signed the item or, if appropriate, to the outside consultant who signed the consultant report accompanying the item.
4. *Communications Regarding Investment Transactions and Contracts.* Except for communications during staff briefings of Board members in preparation for an upcoming Board meeting, and communications by Committee Chairs in carrying out their responsibilities under Section VII.D., individual Board members and the Chief Executive Officer should direct any proposals, questions or communications regarding a prospective or existing investment transaction or contract to the Chief Investment Officer or to his or her designee in his or her absence. The Chief Investment Officer will direct Investment Office staff to refer all inquiries and communications from individual Board members to him or her. The Chief Investment Officer shall inform the Board President of any communications made by a Board member (other than the Board President) directly to Investment Office staff. The Chief Investment Officer shall inform the Board Vice-President of any communications made by the Board President directly to Investment Office staff.
5. *Communications Regarding Non-Investment Related Contracts.* Except for communications during staff briefings of Board members in preparation for an upcoming Board meeting, and communications by Committee Chairs in carrying out their responsibilities under Section VII.D., individual Board members should direct any proposals, questions or communications regarding a prospective or existing non-investment related contract to the Chief Executive Officer. The Chief Executive Officer will direct his or her staff to refer all inquiries and communications from individual Board members to him or her. The Chief Executive

Officer shall inform the Board President of any communications made by a Board member (other than the Board President) directly to the staff. The Chief Executive Officer shall inform the Board Vice-President of any communications made by the Board President directly to the staff.

6. *Avoiding Appearance of Undue Influence.* To avoid the appearance of undue influence, Board members shall refrain from communications with staff, outside a Board or Committee meeting, wherein the Board member advocates for, or directs staff to, a specified action, decision or course of conduct with respect to any existing or prospective investment transaction or existing or prospective contract. This provision is not intended to impede, in any way, Committee Chairs from carrying out their responsibilities under Section VII. D.
7. *Participation in Staff Meetings and Activities.* Individual Board members shall not participate in routine staff meetings or other staff activities unless specifically requested by a member of the Executive Staff. Such invitation shall be transmitted through the Chief Executive Officer and the Board President.
8. *Assistance in Responding to Inquiries and Correspondence.* Inquiries or correspondence addressed to a Board member, which the Board member wishes to direct to staff for a response or assistance in the preparation of a response, should be forwarded to the Board Services Unit. The Board Services Unit, in conjunction with the Board President's Office, will assign the correspondence or inquiry to the appropriate staff and maintain a tracking system to ensure timely response.
9. *Use of CalPERS Logo and Letterhead.* If a Board member corresponds using the CalPERS logo or on CalPERS letterhead, a file copy must be forwarded to the Board Services Unit.
10. *Assistance with Speaking Engagements.* If a Board member is assigned a speaking engagement on behalf of CalPERS, any request for staff assistance in preparing the speech should be directed to the Board President or Vice President.

If a Board member accepts a speaking engagement outside of a direct assignment (i.e. not assigned by the Board President or Vice President), and needs assistance with the preparation of a speech, the request should be directed to the Board President or Vice President.

11. *No Authority to Violate Bagley-Keene.* Nothing in this policy shall authorize individual Board members to engage in communications that violate the Bagley-Keene Open Meeting Act.

IV. Chief Executive Officer Authority

- A. The Board has delegated to the Chief Executive Officer, authority to administer and manage the System consistent with Board delegation of authority. This includes broad authority for: (1) investment decisions and the hiring of outside advisors and asset managers, as delegated; (2) hiring, supervising, monitoring, evaluating, and, when necessary, taking disciplinary action or terminating senior managers and staff as delegated; (3) services to beneficiaries; (4) budgeting; (5) governmental affairs/media relations; (6) employee training and development; (7) succession planning; (8) actuarial valuations; and (9) legal representation.
- B. The Chief Executive Officer's duties are defined by the Board and include the following:
 1. With advice and counsel from the Board, achieve the long-term policies and strategic objectives established for the System by the Board, including as necessary:
 - a. Determining the appropriate methods for attaining the Board-established policies and strategic objectives.
 - b. Directing CalPERS employees in furtherance of those objectives.
 - c. Ensuring that management activities and decisions are within Board- approved policies.
 2. Monitor the working relationship between CalPERS staff person(s) assigned to assist specific Board committees, and the Committee Chairs, to ensure the efficient operation of the Board's committees. Work with the Board and its committees to ensure that any delegation of authority is clearly and specifically given; oversee staff to ensure that all delegated authority is tracked and reported back as appropriate.
 3. Represent CalPERS, or designate other staff representatives, to outside parties and organizations.
 4. Participate with the Board in the hiring, evaluating for compensation purposes, disciplining, and terminating all non-delegated executive staff.

5. Provide leadership to CalPERS employees in terms of collegiality, civility and ethical conduct.
6. Act as the liaison for communication and information flow between the Board and CalPERS employees.

V. Board President Authority

- A. The Board President's principal role is to lead the Board in the conduct of Board business by managing the affairs of the Board and ensuring the integrity of the Board's process. The President's specific duties, delegated by the Board, are to:

1. Provide leadership to the Board in terms of collegiality, civility and ethical conduct.
2. Ensure that Board operations are consistent with its own policies and those legally imposed upon it from outside CalPERS:
 - a. Ensure that Board member activities fall within the Board's policies regarding governance, prudence and ethics.
 - b. Be responsible for implementing disciplinary action against a Board member whose conduct fails to meet the standards outlined in or violates these Principles, or whose conduct is otherwise inconsistent with Board policies.

Private discipline shall be in the discretion of the Board President, after considering the nature and number of the violations, and may include, but shall not be limited to, admonishment, censure, temporary termination of a Board member's travel privileges, or the requirement of additional ethics or fiduciary training. Where discipline is in private and the Board President believes other Board members would benefit from the information, the Board President will share the information with the other Board members, without divulging the name of the disciplined Board member.

Any public discipline shall be imposed in open session at a duly-noticed meeting of the Board, and only upon adoption of a motion by the Board. The Board may impose the same forms of discipline as the Board

President.

3. Set the Board agenda with input from Board members and the Chief Executive Officer, articulating, prioritizing and scheduling agenda items as appropriate.
4. Conduct Board meetings, controlling the process of Board deliberations pursuant to rules adopted by the Board.
 - a. Limit meeting discussion content to those issues that, according to Board policy, are within the Board's responsibility.
 - b. Ensure timely, fair, orderly, thorough and efficient deliberations, including enforcement of Rules of Order adopted by the Board.
5. Ensure information flow to the Board is comprehensive and timely without being over-detailed.
 - a. With input from the Chief Executive Officer, Board members and Committee Chairs, determine the frequency, subjects and format of information to be provided to Board members and Committees prior to meeting.
6. Make decisions in those areas for which the Board has expressly delegated the President decision-making authority.
 - a. Convene and chair meetings of the Board.
 - b. Appoint Committee membership, with consideration given the expressed desires of individual Board members and the value of periodic rotation of Committee members so as to provide direct exposure to differing Board responsibilities.
 - c. In consultation with affected Committee Chairs, appoint subcommittee membership, giving consideration to the expressed desires of individual Board members and the value of providing direct exposure to differing Board responsibilities.
 - d. In consultation with affected Committee Chairs, resolve the scope of authority of different committees, with the goal of ensuring the most effective and efficient use of Board time.

- e. Certify actions taken by the Board.
 - 7. Represent CalPERS, or designate other Board representatives, to outside parties and organizations.
 - 8. Act as the liaison for communications between the Board and Chief Executive Officer.
 - 9. Recommend Board and Committee meeting calendars, with the advice of the Chief Executive Officer and Committee Chairs.
 - 10. Lead the Board's ongoing assessment of Board performance, process and organization, recognizing that continuing improvement will require periodic change to meet future needs and conditions.
 - 11. Implement the Board's Conflict of Interest, Incompatible Activities, Insider Trading, Reporting and Travel Policies.
 - 12. The Board President and Vice President will be elected annually by members of the Board in open session at the first meeting of the Board that is scheduled in Sacramento, for the term of one calendar year.
- B. While it is the Board to whom the Chief Executive Officer is accountable, it is expected that the Board President will have the most frequent contact with the Chief Executive Officer.

VI. Board Vice President Authority

- A. In the absence or incapacity of the Board President, the Vice President shall have the authority delegated and established by Board policy and in general conformance with the authority of the President.
- B. The Board Vice President shall be responsible for implementing disciplinary action against the Board President in the event his or her conduct fails to meet the standards outlined in or violates these Principles, or his or her conduct is otherwise inconsistent with Board policies.

Private discipline shall be in the discretion of the Board Vice President, after considering the nature and number of the violations, and may include, but shall not be limited to, admonishment, censure, temporary termination of the Board President's travel privileges, or the requirement of additional ethics or fiduciary training. Where discipline is in private and the Board Vice President believes other Board members would benefit from the information, the Board Vice President will share the information with the other Board members.

Any public discipline shall be imposed in open session at a duly-noticed meeting of the Board, and only upon adoption of a motion by the Board. The Board may impose the same forms of discipline as the Board Vice President.

VII. Committees, Committee Chairs and Committee Vice Chairs

- A. Standing Board Committees have an important role in assisting the Board to carry out its responsibilities. In fulfilling this role they:
 - 1. Assist the Board by considering policy alternatives and implications for Board deliberations and actions.
 - 2. Act for the Board when formally delegated such authority for specific purposes. Committee authority is limited to areas explicitly delegated by the Committee's Charter, with care to avoid conflict with authority delegated to the Chief Executive Officer.
 - 3. Perform a monitoring role as to Chief Executive Officer performance in areas specifically delegated in the Committee's Charter.
- B. All Board members shall be advised of the meetings of each Committee, and may choose to attend any Committee meeting, regardless of whether or not they are a member of the Committee. Board members may participate in Committee discussions, but may only vote in Committees in which they are members.
- C. Committee Chairs will be selected by the members of each Committee, with consideration given by members to the periodic rotation of Committee Chairs.
- D. Committee Chairs are responsible for organizing the work of the Committees. In fulfilling this function they:
 - 1. In consultation with the President, set the Committee agenda in accordance with the Committee Charter.

2. Convene and chair meetings of the Committee, enforcing standards of civility and decorum as set forth in the Board's Rules and Guidelines for the Conduct of Meetings.
3. Ensure that the Committee operates to assist the Board consistent with its charter and Board rules including:
 - a. Limiting meeting discussion content to those issues that, according to Board policy and delegation, are within the Committee's responsibility and not within management's responsibility.
 - b. Ensuring timely, fair, orderly, thorough but efficient deliberations, and enforcing the Board's rules of order.
 - c. Ensuring appropriate delegation of authority protocol, consistent with the responsibilities of the Board (see section I.G, above).
4. Work directly with the staff person(s) assigned by the Chief Executive Officer on matters within the Committee Charters.
5. Shall be briefed by staff prior to each Committee meeting. The Chair is responsible for resolving issues or conflicts related to the scheduling of any additional staff briefings.
6. May designate one or more staff to handle individual Board member requests for documents on behalf of the Chair and to use other processes to handle such requests. Staff shall inform all Board members of any documents provided pursuant to such request.
7. In consultation with the members of the Committee and the staff person(s) assigned by the Chief Executive Officer to assist the Committee, determine the most appropriate method of and time for obtaining and considering independent consultant input on issues within the Committee's Charters.
8. In consultation with the staff person(s) assigned by the Chief Executive Officer to assist the Committee, annually review the matters that were presented to the Committee during the prior year, and evaluate whether these matters represented an effective and efficient method of achieving the Board's policies and strategic

direction. Report conclusions and recommendations to the Committee for action.

9. Act as a liaison between the Committee, the Board President, and the Board.
10. May, in the absence of the Board President and Vice President, appoint a sub-committee to conduct the business of the Committee if there is an insufficient number of Committee members in attendance to constitute a quorum.
11. Provide the Board President with recommendations concerning subcommittee membership.

E. Committee Vice Chairs

In the absence or incapacity of the Committee Chair, the Vice Chair shall have the authority delegated and established by the Committee's Charter. Committee Vice Chairs will be selected by the members of each Committee. Consideration will be given to the rotation of Committee Vice Chairs so that members of the Committee can gain added experience and can assume added future responsibilities based on demonstrated interest and ability.